

Message Text

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ACTION ARA-20

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SUBJ: CONTRACT SIGNED WITH AMERICAN FIRM FOR A SECOND

BRIQUETTING PLANT AT CIUDAD GUAYANA.

SUMMARY: ON JULY 12, A \$27 MILLION CONTRACT WAS SIGNED WITH AN AMERICAN COMPANY TO BUILD A SECOND IRON BRIQUETTING PLANT NEAR CIUDAD GUAYANA, THE THREE VENEZUELA PARTNERS IN THE ENTERPRISE TO BE CORPORACION VENEZOLANA DE GUAYANA (CVG), SIDERURGICA VENEZOLANA "SIVENSA" S.A., AND ANDRES BOULTON. END SUMMARY.

1. LAST NIGHT I WAS INVITED TO A SMALL PRIVATE DINNER AT THE HOME OF ANDRES BOULTON (PRINCIPAL OWNER OF VIASA AND AVENSA AIRLINES AS WELL AS REPRESENTATIVE OF PRUDENTIAL GRACE IN VENEZUELA) TO CELEBRATE SIGNATURE THAT DAY OF A \$27 MILLION CONTRACT FOR A NEW STEEL BRIQUETTING PLANT IN THE CIUDAD GUAYANA AREA. THE CONTRACTOR FOR THIS ESTABLISHMENT WILL BE THE MCKEE COMPANY OF CLEVELAND, WHOSE PRESIDENT IS MERRILL COX WHO SIGNED THE CONTRACT WITH THREE CO-EQUAL VENEZUELAN PARTNERS: CORPORACION VENEZOLANA DE GUAYANA (CVG); SIDERURGICA VENEZOLANA "SIVENSA" S.A., A PRIVATE STEEL COMPANY; AND BOULTON HIMSELF.

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2. ACCORDING TO MILES SHEROVER OF SIVENSA, THE PLANT EVENTUALLY WILL PROCESS TEN MILLION TONS OF IRON ORE A YEAR AND

WILL PRODUCE BRIQUETTES CONTAINING 90 PER CENT IRON, THUS PERMITTING DIRECT CONVERSION TO STEEL IN ELECTRIC FURNACES WITHOUT GOING THROUGH THE OLD TIME PIG IRON STAGE. SHEROVER SAYS PROCESS TO BE USED IS THE DEVELOPED BY STANDARD OIL OF NEW JERSEY BUT THAT IN MOST RESPECTS IT CLOSELY PARALLELS THE U.S. STEEL PROCESS WHICH AT LONG LAST HAS GONE ON STREAM IN THE BRIQUETTING PLANT AT PUERTO ORDAZ. ESSENTIAL TO BOTH PLANTS, THERE IS AN ALMOST UNLIMITED REQUIREMENT FOR NATURAL GAS.

3. SHEROVER INFORMED ME THAT HE AND OTHERS ARE VERY MUCH INTERESTED IN THE DEVELOPMENT OF THE ORINOCO PETROLIFEROUS BELT NOT SO MUCH FROM ITS OIL ASPECT AS FOR FACT THAT ONE OF THE IMPORTANT BY-PRODUCTS OF DEVELOPMENT OF THIS RESERVE WILL BE A HYDROCARBONIC GAS WHICH CAN BE USED IN THE BRIQUETTING INDUSTRY IN LIEU OF NATURAL GAS. HE THEREFORE SEES A USEFUL SYMBIOSIS BETWEEN THE EVENTUAL DEVELOPMENT OF THE ORINOCO OIL DEPOSIT AND THE EXPLOITATION OF THE ORINOCO IRON DEPOSITS FOR USE IN THE BRIQUETTING PLANTS.

4. ACCORDING TO SHEROVER, FINANCING FOR THE \$27 MILLION PROJECT WILL COME IN PART FROM EXIMBANK (\$17 MILLION TELCON FLEIG-BUTCHER 7/13) AND AN \$11 MILLION LOAN FROM MIDLAND MARINE BANK OF CLEVELAND, OHIO; PRESUMABLY BALANCE OF NEEDED CAPITAL WILL BE MET BY THE THREE PARTNERS--CVG, SIVENSA, AND BOULTON. ACCORDING TO SHEROVER, IT IS HOPED THAT THE NEW PLANT WILL GO ON STREAM WITHIN TWO YEARS. HE SAYS THE STANDARD OIL PROCESS WAS SUCCESSFULLY TESTED IN A PILOT PLANT IN NOVA SCOTIA, AND SEEMED CONFIDENT THAT THE HIGHLY PAINFUL AND EXPENSIVE TEETHING PERIOD UNDERGONE BY U.S. STEEL IN ITS BRIQUETTING PLANT AT PUERTO ORDAZ CAN BE CIRCUMVENTED. WE UNDERSTAND THAT ORIGINAL BUDGET COST OF THIS PLANT WAS AROUND \$40 MILLION, BUT THAT ACTUALLY TOTAL COST WAS SLIGHTLY OVER \$105 MILLION.

MCCLINTOCK

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